PREPARATION OF A REVIVAL PACKAGE FOR NEHHDC

2001

SUBMITTED BY:

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EXECUTIVE SUMMARY

TITLE OF THE STUDY

PREPARATION OF A REVIVAL PACKAGE FOR NEHHDC

This report is prepared primarily for identifying the reasons for the persistent huge losses incurred by the North Eastern Handicrafts and Handlooms Development Corporation Ltd. (NEHHDC) and suggesting remedial measures so as to help the Corporation come out of the losses and grow as a vibrant and self sustaining organisation in the long run. An in-depth study of the activities, working and financials of the Corporation was undertaken and discussions were held with the Managing Director and other key officials of the Corporation as well as Development Commissioner (Handicrafts) and Development Commissioner (Handlooms) at various stages of study and analysis.

STATUS REPORT

The Corporation was set up in March 1977 with the objective of serving as a regional corporation for providing developmental and promotional inputs by way of product and design development, training and upgradation of technologies and for marketing the finished products of the North Eastern region.

Since its inception the Corporation has been playing dual role — as a developmental institution and as a commercial organisation. The focus of activities like procurement and marketing has generally been developmental in character so as to provide market uplinkages to the artisans and weavers. The Corporation has also been implementing various promotional and developmental schemes of DC(Handicrafts) and DC (Handlooms) in the region. The organisation over the years has emerged as a promotional and developmental agency and the emphasis on commercial activities has been inadequate.

The Corporation at this juncture is exposed to serious challenges. The accumulated losses as on 3 March 2001 are Rs. 12.13 crores (Rs. 25.94 crores approx. including interest on Government and Bank Loans not provided for in the Accounts). The Networth of Corporation is completely eroded and stands at a huge negative amount of Rs. 8.77 crores as on 31 March 2001 (Rs. 22.38 crores approx. including interest on Government and Bank Loans not provided for).

Govt. of India, for the sake of continuing development in the North Eastern region, has been financing these losses under ‘Cash Loss (Reimbursement Loan) Scheme’ . The amount of loans from the Govt. stood as on 3 March 2001 at Rs. 7.95 crores plus interest of Rs. 11.84 crores (approx.). The Corporation is in no position to either pay the interest or repay the principal amount of loan.

In the face of serious challenges, survival of the Corporation is at stake. The cash crunch is seriously affecting the operations of the Corporation. Winding up of the Corporation would be a setback to the development of North East region. In the interest of the socio-economic development of the region and its special political significance, it is desirable that the activities of the Corporation continue.

It was also considered to convert the operations of the Corporation into a Development Board. The recommendations and suggestions for its conversion into Developmental Board were contained in the draft report. However, Government has been of the opinion that it should continue as a Corporation. This final report is limited to the issue of turnaround of the Corporation.

MAJOR CAUSES OF SICKNESS

The major causes for the huge losses suffered by the Corporation are identified as under:-

1. Ambiguous role definition and dual set of activities namely Commercial activities and Promotional & Developmental activities, which are not distinguished from each other.
2. No matching revenues in respect of salaries and overhead expenses incidental to the execution of developmental projects and schemes
3. Inadequate and irregular funding since inception
4. Low level of Sales due to difficult hilly terrain, insurgency in North East, low level of economic development and low level of production
5. Pre-closure and post-closure losses of the dye house
6. Absence of Corporate Planning, inadequate systems and controls
7. Incidence of heavy interest on Government loans

TURNAROUND STRATEGIES

1. Clear Identification and Delinking of P&D Activities

For the Corporation to survive and grow in the long run, its objectives and activities need to be defined with clarity. The Promotional and Developmental activities undertaken by the Corporation should be clearly identified and completely delinked from the Commercial activities for the purpose of performance monitoring and funding.

The employees and the infrastructure and facilities utilised for the execution of the P&D activities should be earmarked and the expenditure on salaries of these earmarked employees and overhead expenses in respect of such earmarked facililities be met by way of grants by treating such expenditure as essentially developmental in character.

2. Restructuring Commercial Activities

The commercial activities need to be more focused. Strategic competitive advantages need to be built, developed and nurtured for the self-sustenance of Corporation in the long run. The following are the prominent suggestions regarding restructuring of commercial activities:

- Guwahati emporium which is loss making, should be closed down
- Retail network to be increased by way of strategic partnerships with other State run or private emporia on mutual reciprocal basis.
- Greater focus on handlooms .products
- Thrust on bulk sales and exports

• Commencement of product development programmes with design improvement, value addition, product diversification, etc.
• Rationalising Product Costing and Pricing policies
• Recruiting one senior marketing professional to head the Marketing Department and two Merchandisers (Procurement Managers) — one each for handicrafts and handlooms for revitalising the marketing functions of the Corporation.

3. Organisational Restructuring
• Regional Office at Guwahati be converted into Head office for effective administration. Presently, the Head Office is at Shillong.
• Guwahati emporium be closed, as suggested above.
• Rationalisation of manpower be done at each location and unit
• Common Facility Centre (CFC), Craft Development Centres (CDC5), proposed Design Development Centre, Area Office at Guwahati, Marketing promotion and a part of the Administration and Accounts be identified as P&D activities.
• Extra manpower as a result of the rationalisation, numbering 25 may be deployed with the offices of DC(Handicrafts) and DC(Handlooms) in the North East under the proposed unified command structure of MD, NEHHDC and Ex-Officio Commissioner, North East (H&H) against their existing vacancies.
• 112 out of the existing total 156 employees have been proposed to be earmarked for the P&D activities.
• One senior marketing professional to head the marketing operations and two merchandisers as suggested be recruited.

4. Financial Restructuring
• Interest on Govt. loan be waived and the principal amount of Govt. loans upto 31.3.2001 be written off or converted into equity
• Bank loan should be squared up after a negotiated settlement with the bank. It is anticipated that the bank loan may be settled at Rs. 1.60 crore.
• Plant & Machinery and other assets of dye house be disposed off
• Adequate working capital be provided for the marketing activities. It is estimated that the Corporation would need additional working capital of Rs. 0.92 crore for a successful turnaround.
• Share Capital of the Corporation be rearranged as per the Companies Act, 1956 to wipe off the earlier losses upon waiver of interest and write off/conversion of loans.

5. Strengthening MIS, Budgetary & Cost Control Systems
• Systems relating to MIS, Inventory Control, Budgetary Control and Cost Management are virtually non existent and should be developed to suit the needs of the Corporation and implemented.

6. Manpower Training
• Officers and staff whether engaged in marketing activities or developmental activities or finance and administration need to be given adequate training in respect of their respective jobs, work attitudes and job orientation.

D. FINANCIAL IMPLICATIONS

Fund Requirement for Turnaround

Fund requirement for implementing the—turnaround strategies including inter alia clearing of bank loan (Rs. 1.60 crore) provisioning of working capital (Rs. 0.92 crore) and estimated cash losses during turnaround phase (Rs. 0.52 crore) works out to Rs. 3.23 crores.

Sources for Funding

The amount of FDRs of Rs. 75.00 lakhs should be liquidated and proceeds utilised for meeting the funds requirement for turnaround. The balance amount of Rs. 2.48 crores needs to be arranged by way of long term sources, most preferably share capital.

Expenditure on P&D Activities to be supported by way if Grants

The estimated expenditure on salaries of the earmarked employees and overheads incidental to the execution of P&D schemes has been estimated at Rs. 1.53 crores for the year 2001-02. It is proposed that this expenditure is met by way of grants.

Waiver of Interest on Govt. Loans and Write off Principal Amount

Interest on Govt. loan be waived (approx. Rs. 11.84 crores as on 3 1.3.2001) and the principal amount of Govt. loans upto 31.3.2001 (Rs. 7.95 crores) be written off or converted into equity

FEASIBILITY

The Corporation is likely to break even by the 4 year. The losses during the first 3 years are estimated to be Rs. 51.63 lakhs.

IMPLEMENTATION

A Steering Committee be constituted for monitoring the implementation of the turnaround plan. Timely steps should be taken for implementing the turnaround plan so that from next year i.e. 2002-03, the implementation of the turnaround plan starts yielding results.